

Jewish Idea of Central Bank for America

The Evolution of Paul M. Warburg's Idea of Federal Reserve System Without Government Management

ACCORDING to his own statements and the facts, Paul M. Warburg set out to reform the monetary system of the United States, and did so. He had the success which comes to few men, of coming an alien to the United States, connecting himself with the principal Jewish financial firm here, and immediately floating certain banking ideas which have been pushed and manipulated and variously adapted until they have eventuated in what is known as the Federal Reserve System.

When Professor Seligman wrote in the Proceedings of the Academy of Political Science that "the Federal Reserve Act will be associated in history with the name of Paul M. Warburg," a Jewish banker from Germany, he wrote the truth. But whether that association will be such as to bring the measure of renown which Professor Seligman implies, the future will reveal.

What the people of the United States do not understand and never have understood is that while the Federal Reserve Act was governmental, the whole Federal Reserve System is private. It is an officially created private banking system.

Mr. Warburg's Plan Good for War Time

EXAMINE the first thousand persons you meet on the street, and 999 will tell you that the Federal Reserve System is a device whereby the United States Government went into the banking business for the benefit of the people. They have an idea that, like the Post Office and the Custom House, a Federal Reserve Bank is a part of the Government's official machinery.

It is natural to feel that this mistaken view has been encouraged by most of the men who are competent to write for the public on this question. Take up the standard encyclopedias, and while you will find no misstatements of fact in them, you will find no direct statement that the Federal Reserve System is a private banking system; the impression carried away by the lay reader is that it is a part of the Government.

The Federal Reserve System is a system of private banks, the creation of a banking aristocracy within an already existing autocracy, whereby a great proportion of banking independence was lost, and whereby it was made possible for speculative financiers to centralize great sums of money for their own purposes, beneficial or not.

That this System was useful in the artificial conditions created by war—useful, that is, for a Government that cannot manage its own business and finances and, like a prodigal son, is always wanting money, and wanting it when it wants it—it has proved, either by reason of its inherent faults or by mishandling, its inadequacy to the problems of peace. It has sadly failed of its promise, and is now under serious question.

Mr. Warburg's scheme succeeded just in time to take care of war conditions, he was placed on the Federal Reserve Board in order to manage his system in practice, and though he was full of ideas then as to how banking could be assisted, he is disappointingly silent now as to how the people can be relieved.

However, this is not a discussion of the Federal Reserve System. General condemnation of it would be stupid. But it is bound to come up for discussion one day, and the discussion will become much freer when people understand that it is a system of privately owned banks, to which have been delegated certain extraordinary privileges, and that it has created a class system within the banking world which constitutes a new order.

He Wanted One Central Bank

MR. WARBURG, it will be remembered, wanted only one central bank. But, because of political considerations, as Professor Seligman tells us, twelve were decided upon. An examination of Mr. Warburg's printed discussions of the subject shows that he at one time considered four, then eight. Eventually, twelve were established. The reason was that one central bank, which naturally would be set up in New York, would give a suspicious country the impression that it was only a new scheme to keep the nation's money flowing to New York. As shown by Professor Seligman, quoted in the last number, Mr. Warburg was not averse to granting anything that would allay popular suspicion without vitiating the real plan.

So, while admitting to the Senators who examined him as to his fitness for membership on the Federal Reserve Board—the Board which fixed the policies of the banks of the Federal Reserve System and told them what to do—that he did not like the 12 district banks idea, he said that his objections to it could "be overcome in an administrative way." That is, the 12 banks could be so handled that the effect would be the same as if there were only one central bank, presumably at New York.

And that is about the way it has resulted, and that

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will be found to be one of the reasons for the present situation of the country.

There is no lack of money in New York today. Motion picture ventures are being financed into the millions. A big grain selling pool, nursed into existence and counseled by Bernard M. Baruch, has no hesitancy whatever in planning for a \$100,000,000 corporation. Loewe, the Jewish theatrical man, had no difficulty in opening 20 new theaters this year—

But go into the agricultural states, where the real wealth of the country is in the ground and in the granaries, and you cannot find money for the farmer.

It is a situation which none can deny and which few can explain, because the explanation is not to be found along natural lines. Natural conditions are always easiest to explain. Unnatural conditions wear an air of mystery. Here is the United States, the richest country in the world, containing at the present hour the greatest bulk of wealth to be found anywhere on earth—real, ready, available, usable wealth; and yet it is tied up tight, and cannot move in its legitimate channels, because of manipulation which is going on as regards money.

Money is the last mystery for the popular mind to penetrate, and when it succeeds in getting "on the inside" it will discover that the mystery is not in money at all, but in its manipulation, the things which are done "in an administrative way."

The Money Question and the Jewish Question

THE United States has never had a President who gave evidence of understanding this matter at all. Our Presidents have always had to take their views from financiers. Money is the most public quantity in the country; it is the most federalized and governmentalized thing in the country; and yet, in the present situation, the United States Government has hardly anything to do with it, except to use various means to get it, just as the people have to get it, from those who control it.

The Money Question, properly solved, is the end of the Jewish Question and every other question of a mundane nature.

Mr. Warburg is of the opinion that different rates of interest ought to obtain in different parts of the country. That they have always obtained in different parts of the same state we have always known, but the reason for it has not been discovered. The city grocer can get money from his bank at a lower rate than the farmer in the next county can get it from his bank. Why the agricultural rate of interest has been higher than any other (when money is obtainable; it is not obtainable now) is a question to which no literary nor oratorical financier has ever publicly addressed himself. It is like the fact of the private business nature of the Federal Reserve System—very important, but no authority thinks it worth while to state. The agricultural rate of interest is of great importance, but to discuss it would involve first an admission, and that apparently is not desirable.

In comparing the present Federal Reserve Law with the proposed Aldrich Bill, Mr. Warburg said:

Mr. Warburg—" I think that this present law has the advantage of dealing with the entire country and giving them different rates of discount, whereas, as Senator Aldrich's bill was drawn, it would have been very difficult to do that, as it provided for one uniform rate for the whole country, which I thought was rather a mistake."

Senator Bristow—"That is, you can charge a higher rate of interest in one section of the country under the present law, than you charge in another section, while under the Aldrich plan it would have been a uniform rate."

Mr. Warburg—"That is correct."

That is a point worth clearing up. If Mr. Warburg, having educated the bankers, will now turn his attention to the people, and make it clear why one

class in the country can get money for business that is not productive of real wealth, while another class engaged in the production of real wealth is treated as outside the interest of banking altogether; if he can make it clear also why money is sold to one class or one section of the country at one price, while to another class and in another section it is sold at a different price, he will be adding to the people's grasp of these matters.

This suggestion is seriously intended. Mr. Warburg has the style, the pedagogical patience, the grasp of the subject which would make him an admirable public teacher of these matters.

What he has already done was planned from the point of view of the interest of the professional financier. It is readily granted that Mr. Warburg desired to organize American finances into a more pliable system. Doubtless in some respects he has wrought important improvements. But he had always the banking house in mind, and he dealt with paper. Now, if taking up a position outside those special interests, he would address himself to the wider interests of the people—not assuming that those interests always run through a banking house—he would do still more than he has yet done to justify his feeling that he really had a mission in coming to this country.

The Fight for a Private Federal System

MR. WARBURG is not at all shocked by the idea that the Federal Reserve System is really a new kind of private banking control, because in his European experience he saw that all the central banks were private affairs.

In his essay on "American and European Banking Methods and Bank Legislation Compared," Mr. Warburg says: (the italics are ours)

"It may also be interesting to note that, *contrary to a widespread idea, the central banks of Europe are, as a rule, not owned by the governments.* As a matter of fact, neither the English, French, nor German Government owns any stock in the central bank of its country. *The Bank of England is run entirely as a private corporation, the stockholders electing the board of directors, who rotate in holding the presidency.* In France the government appoints the governor and some of the directors. In Germany the government appoints the president and a supervisory board of five members, while the stockholders elect the board of directors."

And again, in his discussion of the Owen-Glass Bill, Mr. Warburg says:

"The Monetary Commission's plan proceeded on the theory of the Bank of England, *which leaves the management entirely in the hands of business men without giving the government any part in the management or control.* The strong argument in favor of this theory is that central banking, like any other banking, is based on 'sound credit,' that the judging of credits is a matter of business which should be left in the hands of business men, and that the government should be kept out of business. . . . The Owen-Glass Bill proceeds, in this respect, more on the lines of the Banque de France and the German Reichsbank, the presidents and boards of which are to a certain extent appointed by the government. *These central banks, while legally private corporations, are semi-governmental organs inasmuch as they are permitted to issue the notes of the nation—particularly where there are elastic note issues, as in almost all countries except England—and inasmuch as they are the custodians of practically the entire metallic reserves of the country and the keepers of the government funds.* Moreover in questions of national policy the government must rely on the willing and loyal co-operation of these central organs."

Government Control "Dangerous"—"Fatal"

THAT is a very illuminating passage. It will be well worth the reader's time, especially the reader who has always been puzzled by financial matters, to turn over in his mind the facts here given by a great Jewish financial expert about the central bank idea. Observe the phrases:

(a) "without giving the government any part in the management or control."

(b) "these central banks, while legally private corporations. . . are permitted to issue the notes of the nation."

(c) "they are custodians of practically the entire metallic reserves of the nation and the keepers of the government funds."

(d) "in questions of national policy, the government must rely on the willing and loyal co-operation of these central organs."

It is not now a question whether these things are